HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

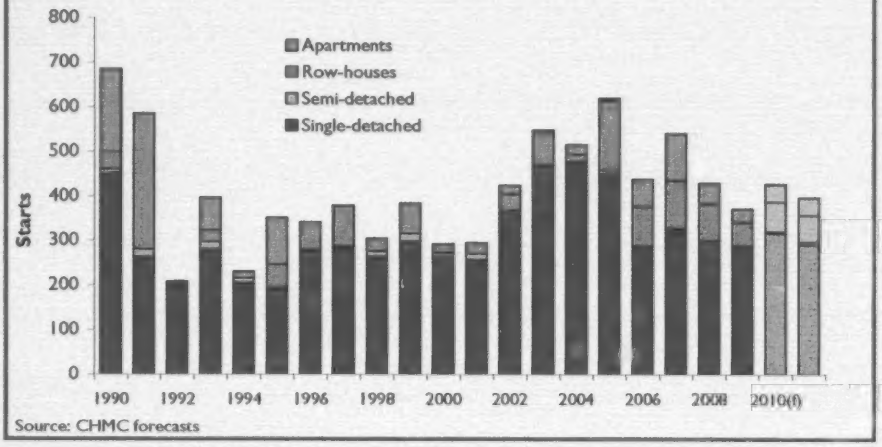
Date Released: Spring 2010

Market at a Glance

- Existing home sales to reach 2,530 in 2010 and decline about nine per cent in 2011 as rising mortgage carrying costs dampen housing demand.
- Peterborough home prices will grow and reach $247,000 this year before price growth moderates into 2011.
- New construction is shifting towards smaller homes. Total starts will grow by 15 per cent reaching 425 homes in 2010, before easing back in 2011. Starts of all dwelling types will be up in 2010.

Figure 1

New Home Starts Recover



Source: CHMC forecasts

(f) The forecasts included in this document are based on information available as of April 23, 2010.

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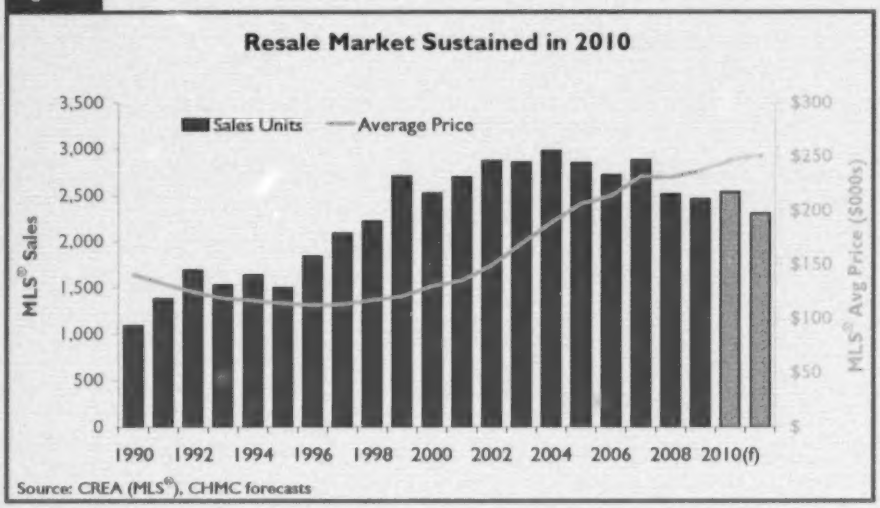
Figure 2



Resale Market

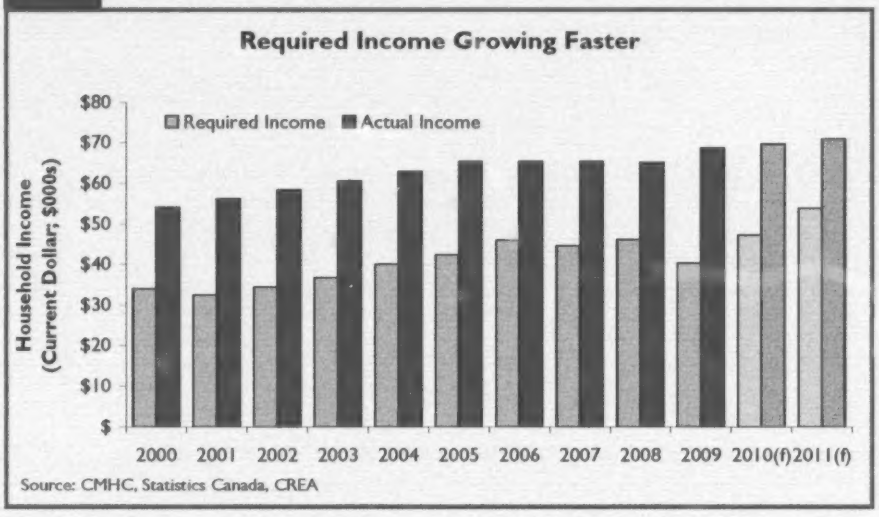
Resale Market Easing

Sales of existing homes will be up moderately in 2010. The sharp rebound that began in early 2009 is beginning to wane and by the second half, sales will decline from the levels reached early in the year. A number of factors will contribute to the slowdown in sales but the key factor will be higher mortgage rates which will lead to higher overall mortgage carrying costs. The income required[1] to buy a home at the average MLS® price will rise faster than actual incomes and this will gradually slow down housing demand through 2011. Other factors slowing sales include change to mortgage regulations and a diminishing number of first homebuyers.

Rising prices will entice more sellers to list their homes for sale later this year and into 2011. Sellers hoping to take advantage of appreciating home prices will contribute to the rise in new listings, providing potential buyers with more choice. As a result, the balance of power between buyers and sellers will be relatively equal and housing prices will grow at a slower rate. The average price of a home will rise over four per cent in 2010. In 2011, the average price will increase but at a rate slower than the rate of inflation.

One emerging trend in the resale market is the movement of ageing baby boomers from the GTA and Durham municipalities to the Peterborough area to enjoy their retirement years. Boomers who sell their homes would have gained equity in their homes and be able to afford the larger, more expensive homes in areas such as Smith-Ennismore-Lakefield. More sales of homes above $250,000 in this area is expected in the near future.

Figure 3



[1] Required income is mortgage carrying costs divided by .32 to reflect the usual qualifying criteria of most lenders. Mortgage carrying costs are based on a ten per cent downpayment, the posted fixed fixed five-year mortgage rate and a 35 year amortization.

New Home Market

Momentum Sustains New Construction

New home starts will increase by 15 per cent in 2010 to 425 units, before softening in 2011. A record number of building permits were registered by the end of 2009, but few translated to starts in that year. The backlog will sustain starts at a high level throughout 2010. Also, the tightening of the resale market in the late 2009 will create some spill-over of housing demand into the new home market.

Single-detached homes will continue to dominate the market with a market share of over 70 per cent. Inventories of completed but unsold singles have dropped to an extremely low level, so an increase in demand will stimulate new building. The new construction market will be shifting from larger to smaller homes in 2010, especially in Peterborough City, where most starts occur. Smaller singles are a strategy for builders to satisfy homebuyers' preferences for single-detached homes while still complying with provincial requirements under the Growth Plan for the Greater Golden Horseshoe to increase residential density. Smaller singles, built near the downtown core where there is good access to services and amenities, such as transportation and health care, are attractive to seniors who are ready to downsize.

The trend to smaller singles means new home prices are declining. Indeed, the average price of new singles completed in the first quarter of 2010 was about 12 per cent lower than it had been a year earlier. In 2010, the average price will decrease by five per cent to $330,000. Both the median and the average price for new single-detached homes are declining, but the decline in median price is somewhat faster, underlining the shift to less expensive homes. The trend will stabilize in 2011, and higher materials cost will lead to a moderate increase new home prices that year.

The shift to less expensive homes is leading more construction of apartments and rowhouses. Starts of both will be up in 2010 and then hold steady in 2011. More of these dwelling types will be built for the condominium market. Contrary to the experience with single-detached homes, inventories of new rental apartments and rowhouses are coming down slowly from higher-than-usual levels in an environment in which the rental vacancy rate is relatively high.

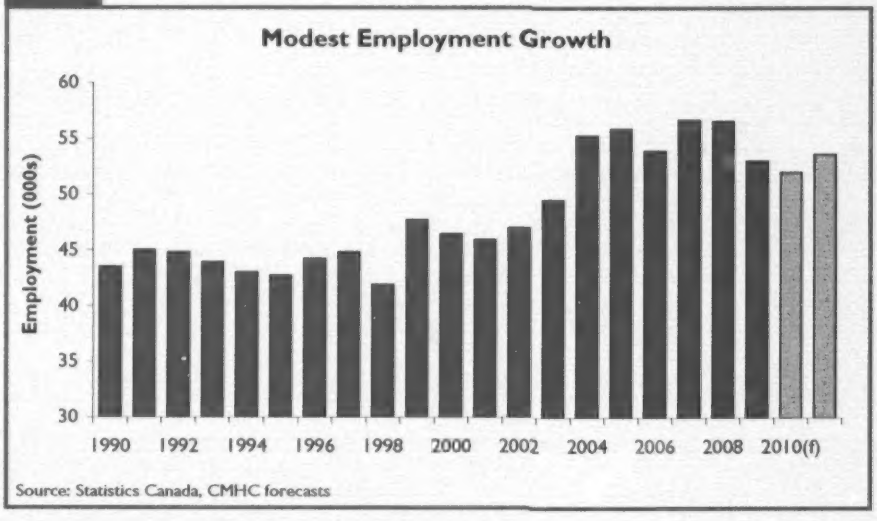
Local Economy

Employment Still a Challenge

The employment picture is still a challenge in Peterborough. Employment is expected to gradually recover through the latter part of this year and into 2011. However, weakness early in the year means that, on average, it will still be down about two per cent this year. During 2009, the labour force declined along with employment, limiting the increase in the unemployment rate. Two factors played a role. The labour force in Peterborough is relatively old and when employers first needed to cut their workforce in response to declining demand, employees close to retirement were a logical choice. Their early retirement meant a simultaneous decline in both employment and labour force. Labour force mobility is another factor of declining labour force. Young workers who lost their jobs tended to move away rather than continuing to look for work in Peterborough. In early 2010, the labour force stabilized even while employment continued to ease, leading to an increase in the unemployment rate.

A number of construction projects supported by public funding to upgrade public infrastructure are expected to lead the recovery

Figure 4



in employment. They will also facilitate private sector investment, strengthening the recovery. The establishment of a centre at the university to promote innovation is another initiative expected to stimulate private sector investment and ultimately generate employment in the region.

Migration Not Sufficient to Raise Population Growth

Peterborough will attract more seniors from the surrounding area in the next few years who are looking for a place to retire. They will be part of the net increase in population of 550 in 2010 due to migration. In 2011, migration will be over 600. Intra-provincial migrants from other areas in Ontario will be the primary source of population growth in Peterborough. Despite the increase in net migration to the area, population growth is very modest. The median age of the population is one of the highest in the province, and currently more people are passing away than are being born, offsetting some of population gains due to migration.

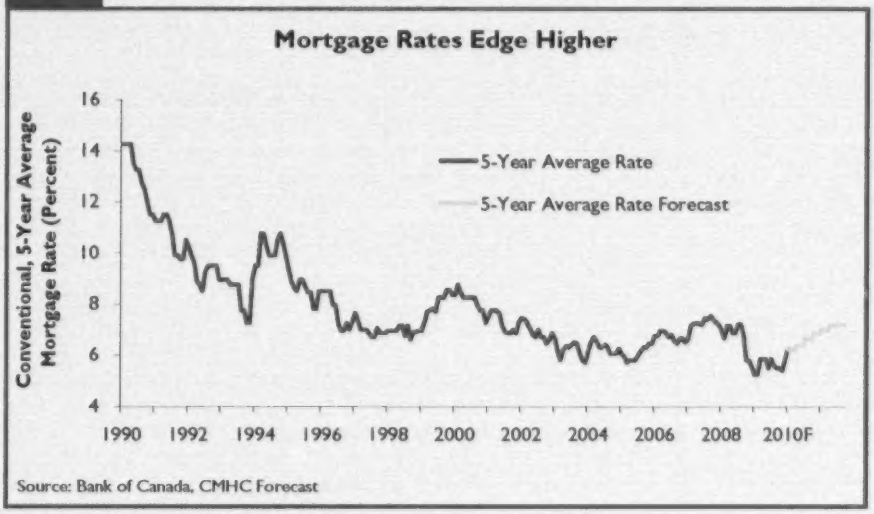
Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 5



Source: Bank of Canada, CMHC Forecast

Forecast Summary Peterborough CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	2,880	2,506	2,458	2,530	2.9	2,300	-9.1
MLS® New Listings	5,085	5,264	4,578	4,800	4.8	5,000	4.2
MLS® Average Price ($)	231,596	230,656	236,637	247,000	4.4	251,000	1.6
New Home Market							
Starts:							
Single-Detached	324	300	286	315	10.1	290	-7.9
Multiples	216	128	85	110	29.4	115	4.5
Semi-Detached	4	0	0	4	-	5	25.0
Row/Townhouse	107	82	55	66	20.0	60	-9.1
Apartments	105	46	30	40	33.3	40	0.0
Starts - Total	540	428	371	425	14.6	395	-7.1
Average Price ($):							
Single-Detached	342,152	345,328	348,765	330,000	-5.4	335,000	1.5
New Housing Price Index (% chg. Ontario)	2.6	3.5	0.1	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.8	2.4	6.0	6.7	-	6.2	-
Two-bedroom Average Rent (October) ($)	822	850	875	880	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	56,700	56,600	53,400	52,020	-2.6	53,650	3.1
Employment Growth (%)	5.2	-0.2	-5.7	-	-	-	-
Unemployment rate (%)	5.7	6.3	7.6	8.8	-	7.6	-
Net Migration	331	618	578	550	-4.8	630	14.5

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

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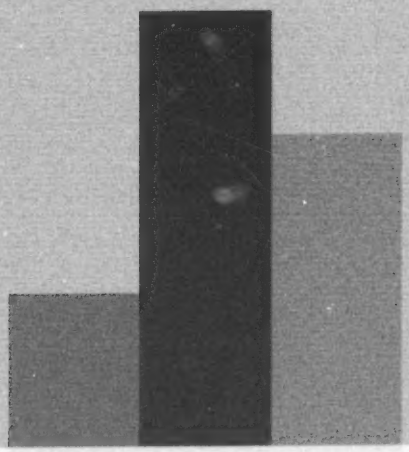

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